

**OLIVET COLLEGE**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with additional information)**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Olivet College  
Olivet, Michigan

September 21, 2007

We have audited the accompanying statements of financial position of Olivet College as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Olivet College as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007, on our consideration of Olivet College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Maner, Costerisan & Ellis, P.C.*

**OLIVET COLLEGE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2007 AND 2006**

|   | 2007                 | 2006                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Cash  | \$ 132,211           | \$ 162,411           |
| Cash and equivalents held for investment purposes   | 291,621              | 180,396              |
| Cash and equivalents invested for comprehensive campaign  | 1,120,792            |                      |
| Total cash and cash equivalents   | 1,544,624            | 342,807              |
| Student accounts receivable (less allowance of \$361,686 in 2007 and \$274,616 in 2006)                                 | 701,999              | 531,460              |
| Other receivables   | 64,736               | 203,410              |
| Due from federal and state governments  | 53,100               | 79,100               |
| Inventory - maintenance supplies  | 155,382              | 163,047              |
| Inventory - bookstore   | 185,869              | 174,902              |
| Deposits, prepaid expenses and other assets   | 27,490               | 27,490               |
| Pledges receivable (less allowance of \$55,000 for 2007 and 2006)   | 976,999              | 226,507              |
| Notes receivable (less allowance of \$325,000 in 2007 and \$200,000 in 2006)  | 1,633,393            | 1,680,538            |
| Land, buildings and equipment - net of accumulated depreciation   | 18,557,004           | 17,271,423           |
| Investments   | 11,757,189           | 10,338,303           |
| Beneficial interest in split-interest agreements  | 3,124,316            | 2,781,017            |
| Deferred loan issuance costs (net of accumulated amortization of \$91,874 and \$79,638, in 2007 and 2006, respectively) | 204,793              | 165,096              |
| Total assets  | <u>\$ 38,986,894</u> | <u>\$ 33,985,100</u> |
| <b>LIABILITIES AND NET ASSETS</b>   |                      |                      |
| Liabilities:  |                      |                      |
| Accounts payable  | \$ 626,003           | \$ 743,969           |
| Accrued compensation and other liabilities  | 635,964              | 1,097,060            |
| Accrued interest payable  | 80,795               | 83,369               |
| Student deposits  | 193,781              | 234,282              |
| Short-term notes payable  | 5,143,000            | 5,318,000            |
| Contract - Chartwell  | 900,000              | 1,000,969            |
| Federal student loan payable  | 1,623,322            | 1,600,805            |
| Long-term debt  | 7,634,737            | 6,387,443            |
| Long-term debt due in one year  | 820,140              | 354,565              |
| Liabilities under split-interest agreements   | 655,136              | 553,214              |
| Liabilities under gift annuities  | 103,790              | 114,039              |
| Total liabilities   | 18,416,668           | 17,487,715           |
| Net assets:   |                      |                      |
| Unrestricted  | 2,373,487            | 2,151,990            |
| Temporarily restricted  | 5,470,241            | 2,037,237            |
| Permanently restricted  | 12,726,498           | 12,308,158           |
| Total net assets  | 20,570,226           | 16,497,385           |
| Total liabilities and net assets  | <u>\$ 38,986,894</u> | <u>\$ 33,985,100</u> |

See notes to financial statements.

**OLIVET COLLEGE**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

|  | Year ended June 30, 2007 |                        |                        |               | Year ended June 30, 2006 |                        |                        |               |
|--|--------------------------|------------------------|------------------------|---------------|--------------------------|------------------------|------------------------|---------------|
|  | Unrestricted             | Temporarily restricted | Permanently restricted | Total         | Unrestricted             | Temporarily restricted | Permanently restricted | Total         |
| Revenue:                                     |                          |                        |                        |               |                          |                        |                        |               |
| Tuition and fees                             | \$ 17,451,426            | \$                     | \$                     | \$ 17,451,426 | \$ 17,002,757            | \$                     | \$                     | \$ 17,002,757 |
| Less: Scholarships and other student aid     | 7,851,487                |                        |                        | 7,851,487     | 7,838,463                |                        |                        | 7,838,463     |
| Net tuition and fees                         | 9,599,939                |                        |                        | 9,599,939     | 9,164,294                |                        |                        | 9,164,294     |
| Comprehensive campaign net contributions     |                          | 2,388,430              | 60,000                 | 2,448,430     |                          | 37,249                 |                        | 37,249        |
| Contributions - annual fund                  | 585,150                  | 422,604                |                        | 1,007,754     | 562,525                  | 264,480                |                        | 827,005       |
| Contributions - debt retirement              |                          |                        |                        |               | 530,170                  |                        |                        | 530,170       |
| Contributions - bequests                     | 84,766                   |                        |                        | 84,766        | 308,418                  |                        |                        | 308,418       |
| Contributions and bequests for endowment     |                          |                        | 116,963                | 116,963       |                          | 41,544                 | 107,418                | 148,962       |
| Governmental grants and contracts            | 180,942                  |                        |                        | 180,942       | 259,952                  |                        |                        | 259,952       |
| Interest and dividends                       | 88,469                   | 104,997                |                        | 193,466       | 57,984                   | 75,951                 |                        | 133,935       |
| Realized and unrealized gains on investments | 20,213                   | 1,697,546              |                        | 1,717,759     |                          | 388,078                |                        | 388,078       |
| Change in split-interest agreements          |                          |                        | 241,377                | 241,377       |                          |                        | 106,960                | 106,960       |
| Miscellaneous income                         | 301,606                  | 297,145                |                        | 598,751       | 216,098                  | 214,786                |                        | 430,884       |
| Auxiliary revenue                            | 4,309,036                |                        |                        | 4,309,036     | 4,258,805                |                        |                        | 4,258,805     |
| Assets released from restrictions            | 1,477,718                | (1,477,718)            |                        |               | 1,026,839                | (1,026,839)            |                        |               |
| Total revenue                                | 16,647,839               | 3,433,004              | 418,340                | 20,499,183    | 16,385,085               | (4,751)                | 214,378                | 16,594,712    |
| Expenses:                                    |                          |                        |                        |               |                          |                        |                        |               |
| Instruction                                  | 4,527,975                |                        |                        | 4,527,975     | 4,423,237                |                        |                        | 4,423,237     |
| Academic support                             | 1,052,329                |                        |                        | 1,052,329     | 1,034,596                |                        |                        | 1,034,596     |
| Student services                             | 1,666,579                |                        |                        | 1,666,579     | 1,490,945                |                        |                        | 1,490,945     |
| Athletics                                    | 2,516,716                |                        |                        | 2,516,716     | 2,355,781                |                        |                        | 2,355,781     |
| Administration and institutional support     | 2,052,524                |                        |                        | 2,052,524     | 2,043,885                |                        |                        | 2,043,885     |
| Fundraising                                  | 804,281                  |                        |                        | 804,281       | 655,935                  |                        |                        | 655,935       |
| Auxiliary                                    | 3,805,938                |                        |                        | 3,805,938     | 3,700,094                |                        |                        | 3,700,094     |
| Total expenses                               | 16,426,342               |                        |                        | 16,426,342    | 15,704,473               |                        |                        | 15,704,473    |
| Change in net assets                         | 221,497                  | 3,433,004              | 418,340                | 4,072,841     | 680,612                  | (4,751)                | 214,378                | 890,239       |
| Net assets, beginning of year                | 2,151,990                | 2,037,237              | 12,308,158             | 16,497,385    | 1,471,378                | 2,041,988              | 12,093,780             | 15,607,146    |
| Net assets, end of year                      | \$ 2,373,487             | \$ 5,470,241           | \$ 12,726,498          | \$ 20,570,226 | \$ 2,151,990             | \$ 2,037,237           | \$ 12,308,158          | \$ 16,497,385 |

See notes to financial statements.

**OLIVET COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

|  | 2007         | 2006         |
|--|--------------|--------------|
| INCREASE (DECREASE) IN CASH:   |              |              |
| Cash flows from operating activities:  |              |              |
| Change in net assets   | \$ 4,072,841 | \$ 890,239   |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |              |              |
| Depreciation and amortization  | 852,804      | 863,339      |
| Contributions restricted for long-term investments and capital projects                            | (1,637,938)  | (37,249)     |
| Realized and unrealized gains on long-term investments   | (1,717,759)  | (612,476)    |
| Changes in assets and liabilities:   |              |              |
| Student accounts and notes receivable  | (190,934)    | (158,535)    |
| Increase in student allowance  | 67,540       | 82,460       |
| Other receivables  | 138,674      | (73,327)     |
| Pledges receivable   | (750,492)    | 69,689       |
| Inventories, prepaids, and deposits  | (3,302)      | (13,938)     |
| Due from federal and state governments   | 26,000       | (31,054)     |
| Prepaid loan issuance costs  | (51,934)     |              |
| Accounts payable   | (117,966)    | 181,249      |
| Accrued interest payable   | (2,574)      | (4,125)      |
| Accrued compensation and other liabilities   | (461,096)    | (268,461)    |
| Contract - Chartwell   | (100,969)    |              |
| Student deposits   | (40,501)     | 63,798       |
| Change in liabilities under split-interest agreements  | 216,903      | 125,625      |
| Total adjustments  | (3,773,544)  | 186,995      |
| Net cash provided (used) by operating activities   | 299,297      | 1,077,234    |
| Cash flows from investing activities:  |              |              |
| Purchase of land, buildings and equipment  | (2,126,148)  | (243,329)    |
| Proceeds from sale of investments  | 1,506,949    | 118,701      |
| Purchase of investments  | (1,551,375)  | (72,755)     |
| Net cash used by investing activities  | (2,170,574)  | (197,383)    |
| Cash flows from financing activities:  |              |              |
| Proceeds from contributions restricted for long-term investment and capital purchases              | 1,637,938    | 37,249       |
| Payments of annuity obligations  | (125,230)    | (97,265)     |
| Additions on long-term debt  | 2,067,435    |              |
| Payments on long-term debt   | (354,566)    | (331,702)    |
| Proceeds from new annuities  |              | 110,000      |
| Advances on short-term note, less repayments   | (175,000)    | (680,000)    |
| Change in student loan payable - net   | 22,517       | 21,355       |
| Net cash provided (used) by financing activities   | 3,073,094    | (940,363)    |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS   | 1,201,817    | (60,512)     |
| CASH AND CASH EQUIVALENTS, beginning of year   | 342,807      | 403,319      |
| CASH AND CASH EQUIVALENTS, end of year   | \$ 1,544,624 | \$ 342,807   |
| CASH PAID FOR INTEREST   | \$ 742,912   | \$ 744,463   |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS:   |              |              |
| Building improvements and equipment acquired under Chartwell's agreement                           | \$           | \$ 1,000,000 |

See notes to financial statements.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF THE ORGANIZATION**

Established in 1844, Olivet College is a private, liberal arts institution located in south central Michigan. The College remains dedicated to its vision of *Education for Individual and Social Responsibility* by providing a quality higher education to all, regardless of gender, race or financial means. The College is home to more than 1,100 students, who study under *The Olivet Plan*. In this unique education experience, students engage in both curricular and co-curricular programs that combine real world experiences with lectures and service learning.

**NOTE 2 - SUMMARY OF ACCOUNTING POLICIES**

- A. Basis of Accounting - The College utilizes the accrual method of accounting, which recognizes income when earned and expenses when incurred. Donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or funds are expended for the specific purpose) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Monies classified as unrestricted include all funds over which the College has discretionary control and net assets released from restrictions. The temporarily restricted classification is comprised of amounts arising from private gifts for scholarships and other needs of the College. Permanently restricted net assets consist of assets to be held indefinitely primarily for scholarship purposes, the related investment income is recorded as temporarily restricted net assets.

- B. Cash and Cash Equivalents - Cash and cash equivalents consist of cash accounts and money market funds. Cash on deposit with investment managers is not considered a cash equivalent.
- C. Investments - Investments with readily determinable fair values are reported at fair value with realized and unrealized gains and losses included in the statement of activities.
- D. Accounts Receivable - The College values accounts receivable at net realizable value. An allowance for doubtful accounts is established based on review of the aging of the receivables compared with the historical collection results. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. The payment of the balance of student accounts is due at the time of registration. After 30 days, balances begin accruing service charges. Prior outstanding balances are due before the beginning of the new term. The College offers some alternative payment options upon request. The College utilized a more aggressive policy regarding student allowance for doubtful accounts and has reflected this change beginning with the June 30, 2006 fiscal year.
- E. Pledges Receivable - Pledges receivable are unconditional promises to give, recorded at net realizable value when the pledge is made.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)**

- F. Notes Receivable - Notes receivable consist primarily of federally funded Perkins student loans that are to be repaid over various periods at varying interest rates, usually beginning once a student graduates. The Perkins Loan Program acts like a revolving loan fund, and the College is required to administer the loaning and collection of funds. In the event the College cannot collect a specific loan, it is turned over to the Department of Education for collection. The student loans are uncollateralized.
- G. Inventories - Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of bookstore items for resale and maintenance supplies held for consumption.
- H. Land, Buildings and Equipment - Land, buildings and equipment is stated at cost or market value at date of gift. Depreciation is computed over the estimated useful life of the assets on the straight-line method. Maintenance and repairs are charged to expense as incurred.
- I. Deferred Loan Issue Costs - Deferred loan issue costs are being amortized on the life of the related loan on a straight-line basis.
- J. Recognition of Contribution and Other Revenue - For financial statement purposes, the College distinguishes between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets.

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or funds are expended for the specific purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The College reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.



**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Concluded)**

- K. Capital Outlay and Maintenance Projects - Capital outlay projects meeting the following criteria are recorded as capital additions of the unrestricted fund:
1. New buildings and additions to buildings;
  2. Renovation, remodeling or modernization projects resulting in a basic change in the use or occupancy of existing facilities and replacement of major equipment items, including vehicles;
  3. Acquisition of an existing facility; and
  4. Individual amounts exceeding \$1,000.
- L. Credit Risk - The College is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the College to concentrations of credit risk consist principally of cash and revenue receivable. The College's cash is deposited with high-credit-quality financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk. Credit risk with respect to revenue receivable is limited because the majority of revenue receivable is due from governmental units.
- M. Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements and the allocation of functional expenses. Accordingly, upon settlement, actual results may differ from estimated amounts.
- N. Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 3 - TAX STATUS**

The College is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except for tax on "unrelated business income," as defined. No provision for income taxes is required.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - INVESTMENTS**

The fair value of investments is estimated based on quoted market prices for those of similar investments. For the years ended June 30, 2007 and 2006, the College withdrew \$501,750 and \$360,996 of appreciation on endowments, respectively.

Investments in endowment and other at June 30 consist of the following:

|                        | <u>2007</u>                 | <u>2006</u>                 |
|------------------------|-----------------------------|-----------------------------|
| Cash and money market  | \$ 539,119                  | \$ 607,911                  |
| Corporate equities     | 11,015,587                  | 9,104,075                   |
| Government obligations | 176,883                     | 600,717                     |
| Other                  | <u>25,600</u>               | <u>25,600</u>               |
| Total                  | <u><u>\$ 11,757,189</u></u> | <u><u>\$ 10,338,303</u></u> |

Investments in split interest agreements at June 30 consist of the following:

|                        | <u>2007</u>                | <u>2006</u>                |
|------------------------|----------------------------|----------------------------|
| Cash and money market  | \$ 91,865                  | \$ 901,527                 |
| Corporate equities     | 2,555,381                  | 1,820,618                  |
| Government obligations | <u>477,070</u>             | <u>58,872</u>              |
| Total                  | <u><u>\$ 3,124,316</u></u> | <u><u>\$ 2,781,017</u></u> |

Investment income consists of the following:

|                                     | <u>2007</u>                | <u>2006</u>              |
|-------------------------------------|----------------------------|--------------------------|
| Interest and dividends, net of fees | \$ 193,466                 | \$ 133,935               |
| Net realized and unrealized gains   | <u>1,717,759</u>           | <u>388,078</u>           |
| Total                               | <u><u>\$ 1,911,225</u></u> | <u><u>\$ 522,013</u></u> |

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - PLEDGES RECEIVABLE**

Pledges receivable are unconditional promises to give that are expected to be collected subsequent to June 30, 2007 and 2006 are as follows:

|  | 2007              | 2006              |
|--|-------------------|-------------------|
| Receivable in less than one year         | \$ 858,052        | \$ 73,516         |
| Receivable in one to five years          | 193,379           | 191,204           |
| Receivable in six to ten years           | 29,846            | 50,000            |
| Total                                    | 1,081,277         | 314,720           |
| Less allowance for uncollectible pledges | 55,000            | 55,000            |
| Less discount to present value           | 49,278            | 33,213            |
| Total pledges receivable                 | <u>\$ 976,999</u> | <u>\$ 226,507</u> |

The pledges are recorded at their fair value at June 30, 2007 and 2006, which represents the present value of estimated future cash flows from unconditional promises to give, discounted using an interest rate of 4 percent.

**NOTE 6 - LAND, BUILDINGS AND EQUIPMENT**

Major classes of land, buildings and equipment at June 30 consist of the following:

|                                   | 2007                 | 2006                 |
|-----------------------------------|----------------------|----------------------|
| Construction in progress          | \$ 1,926,687         | \$                   |
| Land                              | 252,372              | 252,372              |
| Land and improvements             | 797,065              | 765,385              |
| Buildings and improvements        | 22,815,645           | 22,773,735           |
| Furniture, fixtures and equipment | 5,415,465            | 5,289,594            |
| Artwork and collectibles          | 76,000               | 76,000               |
| Library books                     | 681,846              | 681,846              |
|                                   | 31,965,080           | 29,838,932           |
| Less accumulated depreciation     | 13,408,076           | 12,567,509           |
|                                   | <u>\$ 18,557,004</u> | <u>\$ 17,271,423</u> |
| Depreciation                      | <u>\$ 840,567</u>    | <u>\$ 851,102</u>    |

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LINE OF CREDIT**

During the year ended June 30, 2007, the College maintained a bank line of credit of \$7,250,000, with interest at 30-day LIBOR rate plus 1.2 percent, actual rate at June 30, 2007 and 2006, was 6.52 and 6.53 percent. The bank line of credit is secured by all of the investment property, financial assets, cash, equity interest, instruments, and/or general intangibles, which are held in or credited to the bank. At June 30, 2007 and 2006, the outstanding balances were \$5,143,000 and \$5,318,000, respectively. Interest expense on short-term debt was \$318,919 and \$348,378 for the years ended June 30, 2007 and 2006, respectively.

**NOTE 8 - LONG-TERM DEBT**

Long-term debt consists of the following obligations:

|   | <u>2007</u>                | <u>2006</u>                |
|---|----------------------------|----------------------------|
| Michigan Higher Education Facilities Authority loan agreement (1999 Series), collateralized by a bank letter-of-credit agreement, bearing interest at a variable rate as adjusted by the Authority (5.05% to 5.00% at June 30, 2007 and 2006, respectively), due in annual principal and semiannual interest payments through October 1, 2019; principal payments range | \$ 6,080,000               | \$ 6,420,000               |
| Michigan Higher Education Facilities Authority loan agreement (2007 Series), collateralized by certain equipment, bearing interest at 4.5%, due in quarterly principal and interest payments of \$74,291 through June 15, 2015  | 1,980,000                  |                            |
| Note payable to bank, collateralized by equipment, due in quarterly installments of \$3,611, including interest at 6.99%, through June 15, 2015   | 87,435                     |                            |
| Note payable to bank, unsecured, due in monthly installments of \$2,375, including interest at 8.25%, balance due June 18, 2008   | 240,647                    | 248,918                    |
| Note payable to bank, collateralized by real estate, due in monthly installments of \$905, including interest at 6.50%, balance due May 1, 2010   | <u>66,795</u>              | <u>73,090</u>              |
| Total   | 8,454,877                  | 6,742,008                  |
| Long-term debt due in one year  | <u>(820,140)</u>           | <u>(354,565)</u>           |
| Long-term debt  | <u><u>\$ 7,634,737</u></u> | <u><u>\$ 6,387,443</u></u> |

**OLIVET COLLEGE  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - LONG-TERM DEBT (Concluded)**

Debt matures as follows:

| Year ending<br>June 30, |                            |
|-------------------------|----------------------------|
|                         |                            |
| 2008                    | \$ 820,140                 |
| 2009                    | 617,267                    |
| 2010                    | 693,783                    |
| 2011                    | 677,148                    |
| 2012                    | 713,959                    |
| 2013 and after          | <u>4,932,580</u>           |
| Total                   | <u><u>\$ 8,454,877</u></u> |

Interest expense on long-term debt was \$406,544 and \$391,960 for the years ended June 30, 2007 and 2006, respectively.

**NOTE 9 - LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS**

Olivet College is the beneficiary of various trust and contractual agreements under which the College receives current income or will receive benefits in the future when assets are distributed.

In addition, Olivet College operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the College under an annuity contract. The College's liability under the annuity contracts is recorded at present value based on the donor's life expectancy. The discount rate used was 4.6 percent for both years ended June 30, 2007 and 2006.

**NOTE 10 - RETIREMENT PLANS**

Substantially all employees may elect to participate in retirement plans administered by the Teachers' Insurance and Annuity Association and/or the College Retirement Equities Fund. Under the provisions of these defined contribution pension plans, the College contributes 6 percent of an employee's earnings and the employee contributes 4 percent. College contributions amounted to \$241,915 and \$223,541 for the years ended June 30, 2007 and 2006, respectively.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - LEASES**

The College leases copiers, printers, computers and a house. Lease payments amounted to \$52,939 for the year ended June 30, 2007.

Future minimum lease payments required under such leases are as follows:

| Year ending<br>June 30, |                   |
|-------------------------|-------------------|
| 2008                    | \$ 54,546         |
| 2009                    | 54,546            |
| 2010                    | 36,867            |
| 2011                    | 14,153            |
|                         | <u>\$ 160,112</u> |

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of funds generated from activities and transactions relating to student financial aid, reserves maintained for the servicing of the physical properties and contributions received by the College that require income earned on the assets to be paid to a designated beneficiary until death or termination of the agreement. Restrictions are satisfied either by the passage of time or actions by the College.

|   | Balance July 1,<br>2006 | Additions           | Transfers to<br>unrestricted | Balance June<br>30, 2007 | Transfers to<br>unrestricted<br>2006 |
|---|-------------------------|---------------------|------------------------------|--------------------------|--------------------------------------|
| Operations:                             |                         |                     |                              |                          |                                      |
| Instruction related activities          | \$ 90,858               | \$ 206,776          | \$ (150,379)                 | \$ 147,255               | \$ (93,857)                          |
| Academic support activities             | 6,937                   | 150                 | (6,733)                      | 354                      |                                      |
| Athletic activities                     | 50,705                  | 325,409             | (307,267)                    | 68,847                   | (265,293)                            |
| Student activities                      | 97,069                  | 63,704              | (61,925)                     | 98,848                   | (24,502)                             |
| Scholarship activities                  | 242,948                 | 128,912             | (151,041)                    | 220,819                  | (140,217)                            |
| Institutional support activities        | 55,900                  | 17,670              | (45,377)                     | 28,193                   | (27,505)                             |
| Operating and maintenance of plant      | 14,926                  | 3,850               | (59)                         | 18,717                   | (45,982)                             |
| Total operations                        | <u>559,343</u>          | <u>746,471</u>      | <u>(722,781)</u>             | <u>583,033</u>           | <u>(597,356)</u>                     |
| Long-term investments:                  |                         |                     |                              |                          |                                      |
| Earnings and appreciation on endowments | 190,002                 | 1,773,940           | (501,750)                    | 1,462,192                | (360,996)                            |
| Gift annuities                          | 143,477                 |                     |                              | 143,477                  |                                      |
| Student loans                           | 280,034                 | 1,881               | (124,760)                    | 157,155                  |                                      |
| Total long-term investments             | <u>613,513</u>          | <u>1,775,821</u>    | <u>(626,510)</u>             | <u>1,762,824</u>         | <u>(360,996)</u>                     |
| Property:                               |                         |                     |                              |                          |                                      |
| Academic programs                       | 141,410                 | 814,977             | (26,583)                     | 929,804                  | (49,400)                             |
| Athletic facilities                     | 125,841                 | 497,909             | (53,422)                     | 570,328                  | (19,087)                             |
| Cutler Event Center                     | 597,130                 | 1,027,122           |                              | 1,624,252                |                                      |
| Student housing                         |                         | 48,422              | (48,422)                     |                          |                                      |
| Total property                          | <u>864,381</u>          | <u>2,388,430</u>    | <u>(128,427)</u>             | <u>3,124,384</u>         | <u>(68,487)</u>                      |
| Total temporarily restricted            | <u>\$ 2,037,237</u>     | <u>\$ 4,910,722</u> | <u>\$ (1,477,718)</u>        | <u>\$ 5,470,241</u>      | <u>\$ (1,026,839)</u>                |

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of funds generated from transactions and activities relating to contributions received by the College, with permanent donor imposed restrictions placed over the use of the funds.

|                                       | Balance July 1,<br>2006 | Gifts     | Change in<br>value | Investment<br>income | Balance June<br>30, 2007 |
|---------------------------------------|-------------------------|-----------|--------------------|----------------------|--------------------------|
| Split interest agreements:            |                         |           |                    |                      |                          |
| Scholarship and honorariums           | \$ 1,430,345            | \$        | \$ 71,442          | \$ 96,529            | \$ 1,598,316             |
| General activities of the College     | 797,458                 |           | (176,936)          | 250,342              | 870,864                  |
| Total split interest agreements       | 2,227,803               |           | (105,494)          | 346,871              | 2,469,180                |
| Permanently restricted for endowment: |                         |           |                    |                      |                          |
| Scholarship and honorariums           | 6,578,675               | 65,924    |                    |                      | 6,644,599                |
| Buildings and equipment               | 601,803                 | 110,037   |                    |                      | 711,840                  |
| Public speaking                       | 32,175                  |           |                    |                      | 32,175                   |
| General activities of the College     | 2,867,702               | 1,002     |                    |                      | 2,868,704                |
| Total endowments                      | 10,080,355              | 176,963   |                    |                      | 10,257,318               |
| Total                                 | \$ 12,308,158           | \$176,963 | \$(105,494)        | \$ 346,871           | \$12,726,498             |
| Change in value                       |                         |           |                    |                      | \$ (105,494)             |
| Investment income                     |                         |           |                    |                      | 346,871                  |
| Total                                 |                         |           |                    |                      | \$ 241,377               |

**NOTE 14 - CONTRACT - CHARTWELL**

On January 12, 2005, the College entered into an agreement with Compass Group USA, Inc. by and through its Chartwell Division to manage the College's food service program including catering service on the campus of Olivet College.

In exchange for a 10 year contract expiring June 30, 2015, as amended by the agreement signed May 19, 2005, Chartwell's funded an investment in the College's premises to facilitate the performance of services and provide a signing bonus.

The total investment amounted to \$1,100,000. The investment is to be amortized over the remaining life of the contract, calculated on a straight-line basis. If the agreement is terminated for any reason prior to June 30, 2015, the College is liable for the unamortized portion, currently \$900,000 at June 30, 2007.



**OLIVET COLLEGE  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 15 - CONTINGENCIES**

The College participates in various student financial aid programs, which are subject to audit by grantor agencies. Any disallowed claims, including amounts already used may constitute a liability to the College. In the opinion of management, the liability, if any, would be immaterial.

## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audits of the basic financial statements of Olivet College for the years ended June 30, 2007 and 2006 appears on page 1. These audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 17 and 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mayer, Costenizer & Ellis, P.C.*

Certified Public Accountants

Lansing, Michigan  
September 21, 2007

**OLIVET COLLEGE**  
**COMBINING SCHEDULE OF FINANCIAL POSITION**  
**JUNE 30, 2007**

|   | Operations          | Student Loan        | Long-term<br>Investment | Property             | Eliminations          | Total                |
|---|---------------------|---------------------|-------------------------|----------------------|-----------------------|----------------------|
| <b>ASSETS</b>   |                     |                     |                         |                      |                       |                      |
| Cash  | \$ 132,211          | \$                  | \$                      | \$                   | \$                    | \$ 132,211           |
| Cash and equivalents held for investment purposes                             | 181,940             | 17,478              | 2,966                   | 89,237               |                       | 291,621              |
| Cash and equivalents invested for comprehensive campaign                      | 1,120,792           |                     |                         |                      |                       | 1,120,792            |
| Student accounts receivable (less allowance<br>of \$361,686)                  | 701,999             |                     |                         |                      |                       | 701,999              |
| Other receivables   | 64,736              |                     |                         |                      |                       | 64,736               |
| Due from federal and state governments  | 53,100              |                     |                         |                      |                       | 53,100               |
| Inventory - maintenance supplies  | 155,382             |                     |                         |                      |                       | 155,382              |
| Inventory - bookstore   | 185,869             |                     |                         |                      |                       | 185,869              |
| Deposits, prepaid expenses and other assets                                   | 25,490              |                     | 2,000                   |                      |                       | 27,490               |
| Pledges receivable (less allowance of \$55,000)                               |                     |                     | 121,101                 | 855,898              |                       | 976,999              |
| Due from other funds  |                     | 134,922             | 260,582                 | 2,268,486            | (2,663,990)           |                      |
| Notes receivable (less allowance of \$325,000)                                |                     | 1,633,393           |                         |                      |                       | 1,633,393            |
| Land, buildings and equipment - net of accumulated depreciation               |                     |                     |                         | 18,557,004           |                       | 18,557,004           |
| Investments   | 30,613              |                     | 11,726,576              |                      |                       | 11,757,189           |
| Beneficial interest in split-interest agreements                              |                     |                     | 3,124,316               |                      |                       | 3,124,316            |
| Deferred loan issuance costs (net of accumulated<br>amortization of \$91,874) |                     |                     |                         | 204,793              |                       | 204,793              |
| Total assets  | <u>\$ 2,652,132</u> | <u>\$ 1,785,793</u> | <u>\$ 15,237,541</u>    | <u>\$ 21,975,418</u> | <u>\$ (2,663,990)</u> | <u>\$ 38,986,894</u> |

|   | Operations   | Student loan | Long-term<br>investment | Property      | Eliminations   | Total         |
|---|--------------|--------------|-------------------------|---------------|----------------|---------------|
| <b>LIABILITIES AND NET ASSETS</b>           |              |              |                         |               |                |               |
| Liabilities:                                |              |              |                         |               |                |               |
| Accounts payable                            | \$ 620,687   | \$ 5,316     | \$                      | \$            | \$             | \$ 626,003    |
| Accrued compensation and other liabilities  | 635,964      |              |                         |               |                | 635,964       |
| Accrued interest payable                    | 80,795       |              |                         |               |                | 80,795        |
| Student deposits                            | 193,781      |              |                         |               |                | 193,781       |
| Short-term notes payable                    | 5,143,000    |              |                         |               |                | 5,143,000     |
| Due to other funds                          | 2,663,990    |              |                         |               | (2,663,990)    |               |
| Contract - Chartwell                        |              |              |                         | 900,000       |                | 900,000       |
| Federal student loan payable                |              | 1,623,322    |                         |               |                | 1,623,322     |
| Long-term debt                              |              |              |                         | 7,634,737     |                | 7,634,737     |
| Long-term liabilities due in one year       |              |              |                         | 820,140       |                | 820,140       |
| Liabilities under split-interest agreements |              |              | 655,136                 |               |                | 655,136       |
| Liabilities under gift annuities            |              |              | 103,790                 |               |                | 103,790       |
| Total liabilities                           | 9,338,217    | 1,628,638    | 758,926                 | 9,354,877     | (2,663,990)    | 18,416,668    |
| Net assets (deficiency):                    |              |              |                         |               |                |               |
| Unrestricted:                               |              |              |                         |               |                |               |
| Board designated                            |              |              | 146,448                 |               |                | 146,448       |
| Available for operations                    | (7,269,118)  |              |                         |               |                | (7,269,118)   |
| Net investment in plant                     |              |              |                         | 9,496,157     |                | 9,496,157     |
| Total unrestricted net assets (deficiency)  | (7,269,118)  |              | 146,448                 | 9,496,157     |                | 2,373,487     |
| Temporarily restricted net assets           | 583,033      | 157,155      | 1,605,669               | 3,124,384     |                | 5,470,241     |
| Permanently restricted net assets           |              |              | 12,726,498              |               |                | 12,726,498    |
| Total net assets (deficiency)               | (6,686,085)  | 157,155      | 14,478,615              | 12,620,541    |                | 20,570,226    |
| Total liabilities and net assets            | \$ 2,652,132 | \$ 1,785,793 | \$ 15,237,541           | \$ 21,975,418 | \$ (2,663,990) | \$ 38,986,894 |

**OLIVET COLLEGE  
COMBINING SCHEDULE OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

|  | Operations    |                        | Student loan           | Long-term investments |                        |                        | Property     |                        |               |
|--|---------------|------------------------|------------------------|-----------------------|------------------------|------------------------|--------------|------------------------|---------------|
|  | Unrestricted  | Temporarily restricted | Temporarily restricted | Unrestricted          | Temporarily restricted | Permanently restricted | Unrestricted | Temporarily restricted | Total         |
| <b>Operating Activities:</b>   |               |                        |                        |                       |                        |                        |              |                        |               |
| Education and general - revenue                                      |               |                        |                        |                       |                        |                        |              |                        |               |
| Tuition and fees   | \$ 17,451,426 | \$                     | \$                     | \$                    | \$                     | \$                     | \$           |                        | \$ 17,451,426 |
| Less: Scholarships and other student aid                             | 7,851,487     |                        |                        |                       |                        |                        |              |                        | 7,851,487     |
| Net tuition and fees   | 9,599,939     |                        |                        |                       |                        |                        |              |                        | 9,599,939     |
| Contributions - annual fund  | 585,150       | 422,604                |                        |                       |                        |                        |              |                        | 1,007,754     |
| Contributions - bequests   | 84,766        |                        |                        |                       |                        |                        |              |                        | 84,766        |
| Governmental grants and contracts                                    | 180,942       |                        |                        |                       |                        |                        |              |                        | 180,942       |
| Interest and dividends   | 86,810        | 26,722                 | 1,881                  | 1,235                 | 76,394                 |                        | 424          |                        | 193,466       |
| Transfer of appreciation   | 501,750       |                        |                        |                       | (501,750)              |                        |              |                        |               |
| Miscellaneous income   | 200,637       | 297,145                |                        |                       |                        |                        | 100,969      |                        | 598,751       |
| Less assets released from restrictions                               | 847,541       | (722,781)              | (124,760)              |                       |                        |                        |              |                        |               |
| Total education and general revenue                                  | 12,087,535    | 23,690                 | (122,879)              | 1,235                 | (425,356)              |                        | 101,393      |                        | 11,665,618    |
| Education and general - expenses                                     |               |                        |                        |                       |                        |                        |              |                        |               |
| Instruction  | 4,175,358     |                        |                        |                       |                        |                        | 352,617      |                        | 4,527,975     |
| Academic support   | 964,174       |                        |                        |                       |                        |                        | 88,155       |                        | 1,052,329     |
| Student services   | 1,628,799     |                        |                        |                       |                        |                        | 37,780       |                        | 1,666,579     |
| Athletics  | 2,264,847     |                        |                        |                       |                        |                        | 251,869      |                        | 2,516,716     |
| Administration and institutional support                             | 1,989,557     |                        |                        |                       |                        |                        | 62,967       |                        | 2,052,524     |
| Fundraising  | 779,094       |                        |                        |                       |                        |                        | 25,187       |                        | 804,281       |
| Total education and general expenses                                 | 11,801,829    |                        |                        |                       |                        |                        | 818,575      |                        | 12,620,404    |
| Excess (deficiency) of revenue over expenses - education and general | 285,706       | 23,690                 | (122,879)              | 1,235                 | (425,356)              |                        | (717,182)    |                        | (954,786)     |
| Auxiliary activities - revenue                                       |               |                        |                        |                       |                        |                        |              |                        |               |
| Residence halls  | 1,778,393     |                        |                        |                       |                        |                        |              |                        | 1,778,393     |
| Dining   | 1,633,649     |                        |                        |                       |                        |                        |              |                        | 1,633,649     |
| Bookstore  | 627,695       |                        |                        |                       |                        |                        |              |                        | 627,695       |
| Conferences  | 269,299       |                        |                        |                       |                        |                        |              |                        | 269,299       |
| Total auxiliary revenue  | 4,309,036     |                        |                        |                       |                        |                        |              |                        | 4,309,036     |

|   | Operations     |                        | Student loan           | Long-term investments |                        |                        | Property     |                        |               |
|---|----------------|------------------------|------------------------|-----------------------|------------------------|------------------------|--------------|------------------------|---------------|
|   | Unrestricted   | Temporarily restricted | Temporarily restricted | Unrestricted          | Temporarily restricted | Permanently restricted | Unrestricted | Temporarily restricted | Total         |
| Auxiliary activities - expenses                             |                |                        |                        |                       |                        |                        |              |                        |               |
| Residence halls   | \$ 289,147     | \$                     | \$                     | \$                    | \$                     | \$                     | \$           | \$                     | \$ 289,147    |
| Dining  | 1,356,895      |                        |                        |                       |                        |                        |              |                        | 1,356,895     |
| Bookstore   | 475,915        |                        |                        |                       |                        |                        |              |                        | 475,915       |
| Conferences   | 249,093        |                        |                        |                       |                        |                        |              |                        | 249,093       |
| Other   | 129,531        |                        |                        |                       |                        |                        |              |                        | 129,531       |
| Indirect expenses   | 864,584        |                        |                        |                       |                        |                        | 440,773      |                        | 1,305,357     |
| Total auxiliary expenses                                    | 3,365,165      |                        |                        |                       |                        |                        | 440,773      |                        | 3,805,938     |
| Excess of revenue over expenses - auxiliary activities      | 943,871        |                        |                        |                       |                        |                        | (440,773)    |                        | 503,098       |
| Increase (decrease) in net assets from operating activities | 1,229,577      | 23,690                 | (122,879)              | 1,235                 | (425,356)              |                        | (1,157,955)  |                        | (451,688)     |
| <b>Nonoperating Activities</b>                              |                |                        |                        |                       |                        |                        |              |                        |               |
| Comprehensive campaign net contributions                    |                |                        |                        |                       |                        | 60,000                 |              | 2,388,430              | 2,448,430     |
| Additions to properties                                     | (199,460)      |                        |                        |                       |                        |                        | 199,460      |                        |               |
| Principal payments on long term debt                        | (354,566)      |                        |                        |                       |                        |                        | 354,566      |                        |               |
| Change in split-interest agreements                         |                |                        |                        |                       |                        | 241,377                |              |                        | 241,377       |
| Net realized and unrealized gains on investments            |                |                        |                        | 20,213                | 1,697,546              |                        |              |                        | 1,717,759     |
| Transfers, restrictions met                                 | 128,427        |                        |                        |                       |                        |                        |              | (128,427)              |               |
| Transfers, interest on long-term debt                       | (406,544)      |                        |                        |                       |                        |                        | 406,544      |                        |               |
| Contributions and bequests for endowment and gift annuities |                |                        |                        |                       |                        | 116,963                |              |                        | 116,963       |
| Increase (decrease) from nonoperating activities            | (832,143)      |                        |                        | 20,213                | 1,697,546              | 418,340                | 960,570      | 2,260,003              | 4,524,529     |
| Increase (decrease) in net assets                           | 397,434        | 23,690                 | (122,879)              | 21,448                | 1,272,190              | 418,340                | (197,385)    | 2,260,003              | 4,072,841     |
| Net assets (deficiency), beginning of year                  | (7,541,552)    | 559,343                | 280,034                |                       | 333,479                | 12,308,158             | 9,693,542    | 864,381                | 16,497,385    |
| Transfer to Board designated                                | (125,000)      |                        |                        | 125,000               |                        |                        |              |                        |               |
| Net assets (deficiency), end of year                        | \$ (7,269,118) | \$ 583,033             | \$ 157,155             | \$ 146,448            | \$ 1,605,669           | \$ 12,726,498          | \$ 9,496,157 | \$ 3,124,384           | \$ 20,570,226 |

Note: Unrestricted property expenses include indirect expenses related to depreciation of \$840,567, amortization of \$12,237 and long-term interest of \$406,544.

**OLIVET COLLEGE**  
**ADDITIONAL REPORTS REQUIRED BY**  
**OMB CIRCULAR A-133**  
**YEAR ENDED JUNE 30, 2007**

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Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Olivet College  
Olivet, Michigan

September 21, 2007

We have audited the financial statements of Olivet College as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Olivet College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



September 21, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Olivet College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Olivet College in a separate letter dated September 21, 2007.

This report is intended solely for the information and use of the board of trustees, management, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

Board of Trustees  
Olivet College  
Olivet, Michigan

September 21, 2007

**Compliance**

We have audited the compliance of Olivet College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Olivet College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Olivet College's management. Our responsibility is to express an opinion on Olivet College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Olivet College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Olivet College's compliance with those requirements.

In our opinion, Olivet College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

### **Internal Control Over Compliance**

The management of Olivet College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Olivet College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Olivet College's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Olivet College's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Board of Trustees  
Olivet College  
Olivet, Michigan

September 21, 2007

### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of Olivet College as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Olivet College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of board of trustees, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costensen & Ellis, P.C.*

Certified Public Accountants

**OLIVET COLLEGE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

| Federal grantor/pass-through grantor/<br>Program title            | Federal<br>CFDA<br>number | Award<br>amount | Current year<br>expenditures |
|---|---------------------------|-----------------|------------------------------|
| Student Financial Assistance Cluster:                             |                           |                 |                              |
| U.S. Department of Education:                                     |                           |                 |                              |
| Federal Pell Grant Program  | 84.063                    | \$ 1,417,312    | <u>\$ 1,417,312</u>          |
| Federal Supplemental Education Opportunity Grant                  | 84.007                    | 150,841         | <u>150,841</u>               |
| Federal Work Study Program  | 84.033                    | 140,610         | <u>140,610</u>               |
| Academic Competitiveness Grant                                    | 84.375                    | 8,200           | <u>8,200</u>                 |
| National Science and Mathematics<br>Access To Retain Talent Grant | 84.376                    | 4,000           | <u>4,000</u>                 |
| Federal Perkins Loan Expenditures                                 | 84.038                    | N/A             | <u>417,912</u>               |
| Federal Family Education Loan Program:                            |                           |                 |                              |
| Federal Subsidized Stafford Loans                                 | 84.032                    | N/A             | 3,302,993                    |
| Federal Unsubsidized Stafford Loans                               | 84.032                    | N/A             | 2,593,261                    |
| Federal PLUS Loans  | 84.032                    | N/A             | <u>532,162</u>               |
| Total Federal Family Education<br>Loan Program                    |                           |                 | <u>6,428,416</u>             |
| TOTAL FEDERAL EXPENDITURES  |                           |                 | <u><u>\$ 8,567,291</u></u>   |

See Note 3 on page 6 regarding Federal Perkins Loan Program.

See Note 4 on page 6 regarding Federal Family Education Loan Program.

The accompanying notes are an integral part of this schedule.

**OLIVET COLLEGE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Olivet College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. The Student Financial Aid Cluster, CFDA #84.063, #84.007, #84.033, #84.375, #84.376, #84.032 and #84.038, was audited as the major program.
3. The College had Perkins loan balances outstanding at June 30, 2007 of \$1,799,627. The Perkins loan expenditures for the year ended June 30, 2007 consist of new loan advances. The expenditures were funded by collections (principal and interest) on prior loans.
4. The College administers the Federal Family Education Loan (FFEL) Program (CFDA # 84.032). During fiscal year 2006-2007 students received \$6,428,416 of new FFEL loans. These funds were received directly by the students of the College and any interest or other costs related to these loans were received directly by the lender not Olivet College.

**OLIVET COLLEGE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

| CFDA Number(s)   | Name of Federal Program or Cluster |
|--|------------------------------------|
| 84.063, 84.007, 84.033, 84.032, 84.038, 84.375, 84.376 | Student Financial Aid Cluster      |

Dollar threshold used to distinguish between type A and type B programs:

  \$300,000  

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

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None noted.

**Section III - Federal Award Findings and Questioned Costs**

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None noted.

**OLIVET COLLEGE  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

There were no prior audit findings in the previous two years.





Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

September 21, 2007

To the Audit Committee of  
Olivet College  
Olivet, Michigan

In planning and performing our audit of the financial statements of Olivet College as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Olivet College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 21, 2007 on the financial statements of Olivet College. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

### **Prior Year Comments**

#### **Student Accounts Receivable**

Status: The current policy is to refund all of the Title IV funds, including the student's portion, even though it is technically due directly from the student to the department of Education. The College is performing above and beyond what is required.

We believe management has appropriately addressed this issue.

#### **Cash Receipts**

Status: During FY-06, the College's development secretary opened gift receipts and created the initial listing of receipts, this list was then forwarded to another individual who entered the information into the system and then forwarded the necessary items for deposit. We recommended that the initial listing be forwarded directly to accounting and the individual depositing the checks should reconcile the deposit ticket with the initial listing. The College currently has an individual outside the accounting office reconcile the initial listing with deposits.

We believe management has appropriately addressed this issue.

#### **Bank Statement Review**

Status: We recommended that the Chief Financial Officer (CFO) of the College receive the unopened bank statement to strengthen the checks and balances necessary for strong controls over cash. During FY-07, the CFO received the unopened bank statements for proper review.

We believe management has appropriately addressed this issue.

**Daily Cash Reports Comparisons with Deposit Ticket**

Status: We recommended that the College could significantly strengthen its control over cash if an employee independent of cash processing subsequently compared the daily cash reports to the deposit ticket or the bank statement. Management has implemented a process in which, as part of the end of day procedures, a cash-received report is generated by an individual separate from the reconciling and deposit function. This individual then compares the report generated to the bank deposit ticket after the deposit has been made.

We believe management has appropriately addressed this issue.

**Outstanding Checks**

Status: We recommended that an accurate outstanding check list be kept for each bank account and a periodic review of the list(s) be performed on a timely basis. While management is still working on clearing old outstanding checks, the CFO is reviewing the outstanding check balances on a monthly basis.

We believe management has appropriately addressed this issue.

**Cash Disbursements: Sequential, Numerical Check Control**

Status: We recommended that a strict numerical control be kept over all checks issued and that checks be issued in sequence. The CFO now maintains a spreadsheet, separate from the accounts payable check register that accounts for the sequence of checks issued.

We believe management has appropriately addressed this issue.

**Cash Disbursements: Signature Stamp**

Status: We recommended that all signatures on checks be original signatures of those authorized to sign and that the use of the signature stamp be terminated or extremely limited. The College has discontinued using the signature stamp and is currently manually or electronically signing checks as needed.

We believe management has appropriately addressed this issue.

**New Vendors**

Status: We recommended having an individual outside of the payables function be responsible for set up of new vendors. Management believes with current staffing, this recommendation is not practical to implement. However, a compensating factor to this topic would be that the CFO reviews and approves the check register when checks are issued to avoid fictitious vendors.

We believe management has appropriately addressed this issue.

**Credit Card Review**

Status: We recommended that the procedures relating to credit card charges be amended to require that an independent person review the expenditures on the CFO's credit card, as well as, a periodic review of the Presidents credit card. Management has amended the procedures relating to review of credit cards and a responsible individual is currently reviewing all credit card statements on a monthly basis.

We believe management has appropriately addressed this issue.

### **Review of Pay Changes**

Status: We recommended that the CFO should periodically review pay rate changes to ensure that proper documentation is present. Management has begun reviewing a personnel change report on a regular basis.

We believe management has appropriately addressed this issue.

### **General Journal Entries**

Status: As a result of an absence of an individual with the technical expertise to review journal entries performed by the CFO, we recommended that monthly journal entries should be discussed with the President when reviewing monthly financial statements. Management has informed us that the President and the audit committee do receive monthly financial statements which are reviewed at various meetings and telephone conferences throughout the year.

We believe management has appropriately addressed this issue.

### **Student Financial Aid**

Status: We noted an isolated instance regarding disbursement of student loans and recommended that management remain vigilant with its policies and procedures, as well as, the federal guidelines associated with federal student awards. Management has agreed that this was an isolated issue through its own review.

We believe management has appropriately addressed this issue. However, various immaterial inconsistencies were encountered during the FY-07 audit of student financial aid. As a result, a comment regarding continued oversight was issued under the current year comments section of this letter.

### **Computer Passwords**

Status: We recommended the College institute a policy that requires passwords to be changed on a regular basis. Management has informed us that the current network will not support the automatic expiration of passwords or the change of passwords by the individual user and that management will reassess this issue during the next budget process.

Management has addressed this issue. We recommend individuals be encouraged to change their passwords on a regular basis (3 to 4 times a year).

### **Disaster Recovery Plan**

Status: We recommended an improved disaster recovery plan which would address topics of offsite storage and storage and backup capabilities. Management feels that current practices relating to the College's current disaster recovery plan are adequate for present needs and feels that a complete disaster of the college campus is improbable.

We believe management has appropriately addressed this issue.

### **Current Year Comments**

#### **Student Financial Aid Continued Oversight**

During our testing of student financial aid, we encountered a few immaterial inconsistencies regarding student status and awards, which we have shared with management. We recommend that the College reemphasize its commitment to achieving the highest quality review and documentation standards. A reemphasis on quality practices and procedures will prove to be a strong foundation for the new Director of Financial Aid.

### **IRS 403(b) Final Regulations**

#### **Intent**

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

#### **Effective Date**

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

#### **Written Plan Document**

The IRS is working on a model plan document and guidance for education organizations. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

It is our understanding the College currently has a plan document which should be reviewed.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan and consult with your attorney.

Offer employee education. The IRS is developing this type of information as well as a model plan for colleges.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls

Conclusion

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.



To the Audit Committee of  
Olivet College  
Olivet, Michigan

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September 21, 2007

This report is intended solely for the information and use of Olivet College, management, and others within the College, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costenson & Ellis, P.C.*



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

September 21, 2007

To the Audit Committee of  
Olivet College  
Olivet, Michigan 49076

We have audited the financial statements of Olivet College for the year end June 30, 2007, and have issued our report thereon dated September 21, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Olivet College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Olivet College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Olivet College's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Olivet College's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Olivet College's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Olivet College are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007 except for the timing of reducing the allowance for doubtful accounts. This had no effect on the net - receivable. We noted no transactions entered into by Olivet College during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

Allowance on receivables - Pledges, student accounts and notes receivable have allowances assessed on the amount management expects to collect on outstanding balances. This estimate is based on historical collections, and amounts the College has determined are still collectible. Our conclusion regarding the reasonableness of the estimates is based on our review of the aging of the accounts and amounts collected subsequent to year end.

Split interest agreement liabilities - The liability on annuity contracts and trusts is based upon the present value of the estimated future payments to be distributed by the College to donors with gift annuity contracts. Management estimates this liability through published mortality rates, and assumed interest rates. Our conclusion regarding the reasonableness of the estimate is based reviewing the key assumptions made for reasonableness and recalculating a sample of the contracts.

UST remediation payable - The liability on the environmental remediation payable is based upon an estimate provided by the Michigan Department of environmental quality of cost required to clean the area contaminated by a leaking fuel tank and continual monitoring of the MTBE levels in ground water. We reviewed documentation relating to the leak and on going communication with the state and believe the liability is reasonable.

Functional expenses - The functional expenses are allocated based on salary expense and building square footage and its related function. We evaluated the key factors and assumptions used to develop the estimates in determining whether they are reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Olivet College's financial reporting process (that is, cause future financial statements to be materially misstated). Our proposed adjustments were not significant decreasing income by \$2,972.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Olivet College's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Audit Committee of  
Olivet College  
Olivet, Michigan

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September 21, 2007

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Audit Committee, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mamie Costenison & Ellis, P.C.*